

comments on the carrier's proposal. State commissions would be allowed to comment on the proposal through the public notice process.

This proposal is essentially an unrestricted version of the DRRO. As with the DRRO, the CPUC does not believe that the administrative cost savings envisioned by the FCC will be very significant under this proposal. Assuming that all accounts are under the PCCO, the CPUC will still have to address Colorado specific depreciation expenses within any general intrastate rate filing. Because this proposal largely abandons regulatory oversight by the FCC of a large component of the expenses of a LEC, more time and expense will be borne by the CPUC and interested consumer groups in Colorado to study and critique the depreciation expenses of USWC in a rate case environment. Although, the current depreciation prescription process of the FCC might be avoided, the LEC would still be subject to preparation of depreciation analysis on a state-by-state basis. Therefore, the administrative cost savings under this proposal are probably not significant, unless the FCC intends to eliminate the maintenance of accounting and continuing property records with this proposal. (This possibility was not mentioned by the FCC with this proposal but would be opposed by the CPUC.)

The PCCO proposal is based on a flawed concept in that the current price cap scheme of the FCC appears to be sensitive to earnings

based on a rate of return/rate base concept. The PCCO certainly abandons regularity oversight of depreciation expenses. It would allow the LECs to manipulate the depreciation expenses for desired financial results in a manner they have never had before. The PCCO, just as the DRRO, quite simply fails to address the fundamental concept of depreciation by not requiring a match of the depreciation expense to the consumption of capital.

The CPUC does not believe that this proposal would provide the public or state commissions with a reasonable opportunity to comment on the depreciation rate proposals of the carriers as there would be no data upon which to comment except the rate proposals of the carriers. In particular, the CPUC believes that this proposal would violate 47 U.S.C. § 220(i).

If the PCCO is adopted by the FCC, the LECs would have a significant opportunity to manipulate depreciation expenses for financial purposes. As with the comments for the DRRO, the CPUC believes that any over-recovery of depreciation expenses under the PCCO should be refunded to ratepayers while under-recovery should be assigned to the stockholders.

VI. Additional Simplification: Salvage

Under this proposal, carriers would be required to remove net

salvage from their depreciation rates and book the cost of removal and salvage as current period charges and credits. This proposal is independent of the four other proposals put forth in the NPRM.

In terms of the current prescribed depreciation rates for USWC in Colorado, the elimination of net salvage from the rates would have minimal impact on the total depreciation expenses in Colorado. The overall percentage change in the expenses would be an increase of about one percent. This would result in a slight decrease in operating income. However, in certain accounts, such as Account 2441 (Pole Lines) or Account 2431 (Aerial Wire), elimination of the net salvage parameter from the calculation of the depreciation rate would be very significant.

For some accounts, such as Aerial Wire or Pole Lines, the cost of removal has experienced significant increases over the last decade. The net salvage estimates within the depreciation rates in existence during this time lagged behind these changes in removal costs. This development has the effect of moving the collection of net salvage costs to a current period charge rather than spreading the actual removal cost over the life of the plant. For other accounts, usually for newer technology, the net salvage component has negligible effect on the depreciation rate. Historic salvage and cost of removal data is sometimes not reliable and this diminishes the resulting accuracy of the forecasts of these parameters as well as the overall depreciation rate.

For these reasons the CPUC believes the FCC should further consider the treatment of salvage and the cost of removal as current period charges and credits. Additional study of this issue should be conducted before a conclusion is drawn. The CPUC does foresee the potential for a small amount of administrative cost savings from eliminating consideration of net salvage in the depreciation prescription process. However, these parameters would still be included within the expense accounts of the LECs, although not within the depreciation accounting records, so the main accounting costs for these parameters would still exist.

Whether the proposal for current expensing of salvage and cost of removal is consistent with General Accepted Accounting Principles (GAAP) should not be the controlling factor in the regulatory environment for adoption of the proposal. However, the CPUC does not foresee this proposal violating GAAP as it should not have a material effect on the earnings of the LECs.

The names and addresses of persons to whom correspondence concerning these comments of the Public Utilities Commission of the State of Colorado and future correspondence in this proceeding should be addressed are:

Robert E. Temmer, Chairman
Colorado Public Utilities Commission
Office Level 2 (OL-2)
1580 Logan Street
Denver, Co 80203

Anthony Marquez, Esq.
First Assistant Attorney General
Office Level 2 (OL-2)
1580 Logan Street
Denver, Co 80203

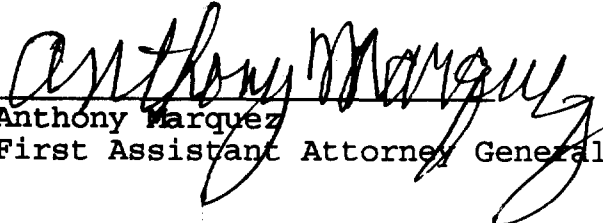
Telephone or facsimile inquiries requiring expedited response to these comments should be made to Chairman Robert E. Temmer, through:

Bruce Mitchell, Senior Professional Engineer
Telephone 303-894-2000 EXT. 375
Telefax 303-894-2065

Dated at Denver, Colorado this 9th day of March, 1993.

Respectfully Submitted,

FOR THE ATTORNEY GENERAL


Anthony Marquez
First Assistant Attorney General